STRATEGY RESEARCH PROJECT

SECURITY CHALLENGE OR BUSINESS BONANZA: UNITED STATES ARMS TRANSFERS TO THE PERSIAN GULF

BY

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ABSTRACT

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Because of oil, the United States has a vital national interest in the stability of the Persian Gulf region. The conundrum is that large amounts of conventional arms are flowing into the region each year and the U.S. is the biggest arms exporter to the world and specifically to the Persian Gulf. The end of the Cold War prompted a U.S. defense procurement holiday that forced the drastic resizing of the entire defense industrial base. The downsizing and globalization of the defense industry has resulted in multinational corporations with a production presence in multiple countries where the U.S. has limited influence. The Persian Gulf is the world's largest "developing" region arms importer. These arms sales are avidly sought after by the U.S. defense industry and the U.S. Government is actively promoting these sales. Despite these arms transfers current deliveries are making only token progress in correcting the qualitative defects in friendly forces and limited progress is being made toward integrating the Southern Gulf States militaries. This study explores the trend of arms transfers from the U.S. to the Persian Gulf, U.S. policy on arms transfers, and the military and geopolitical situation influencing policy decisions in the Persian Gulf.

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SECURITY CHALLENGE OR BUSINESS BONANZA: UNITED STATES ARMS TRANSFERS TO THE PERSIAN GULF

The Middle East contains more than 70 percent of the world's oil, the majority of it in the Arabian or Persian Gulf. Unfortunately the Gulf is characterized by instability including two recent major conventional wars – the Iran-Iraq War in 1989 and Desert Storm in 1991. The two nations Iraq and Iran pursue policies hostile to U.S. interests in the regions and are considered by the U.S. Government as states that sponsor terrorism. They are "rouge" or "backlash" states capable to destabilizing the region. These realities impact the internal security of the Gulf States, their relations with each other, and their relations with outside powers. The United States is now, and for the foreseeable future, actively engaged in the security of the Gulf, diplomatically, economically, and militarily.

This paper examines conventional arms transfers to the Southern Gulf States, the associated U.S. policy, and the issues that drive that policy. The Southern Gulf States include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, Yemen, and the United Arab Emirate (UAE). While on good terms with the Southern Gulf States the United States has major concerns with Iraq and Iran. The United States instituted and continues to pursue a policy of "dual containment" against these two countries.

The Gulf States spent over $208 billion dollars on military expenditures in the 1990s with a significant portion of that on arms deliveries from the U.S. Although the trend of worldwide arms transfers since the Gulf War has been downward, U.S. sales remained relatively constant. This resulted in the U.S. becoming the largest arms exporter in the world with over a 50% share. In 1999 alone, U.S. transfers to the Southern Gulf States exceeded $5.98 billion dollars. Arms reduction advocates have hotly debated the merit of the sale of conventional arms to a region where stability is a vital national interest. They question whether U.S. policy is promoting stability or just providing support to the U.S. arms exporters. The transfers are important to the U.S. defense industry, particularly with the reduction in worldwide sales, reduction in U.S. orders, and the associated downsizing of the defense industry. There certainly exits the potential to increase or decrease regional stability with the introduction of additional arms, so great care with the associated policy is required.

UNITED STATES VITAL INTERESTS

The Middle East is an area in which the United States has a vital interest. The maintenance of peace in that area, which has so frequently seen disturbances in the past, is of significance to the world as a whole.

— President Franklin Delano Roosevelt, March 1944,

No threat could arise to your kingdom that would not be of immediate concern to the United States.

— President Truman to Saudi Arabian King Abdul Aziz, 1950

An attempt by any outside force [i.e. the Soviet Union] to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force.

— President Jimmy Carter, January 23, 1980.

All Presidents since Roosevelt have reaffirmed the importance of the Middle East and particularly the Persian Gulf stability as a vital interest to the United States. The 1999 National Security Strategy policy for South West Asia, and particularly the Persian Gulf, focuses on deterring threats to regional stability and energy security, countering threats posed by Weapons of Mass Destruction (WMD), and protecting the security of regional partners, particularly from the threats posed by Iraq and Iran. United States policy is to continue to encourage members of the Gulf Cooperative Council (GCC) to work closely on collective defense and security arrangements, help individual GCC states meet their defense requirements, and maintain U.S. bilateral defense relationships.[1]

Last year the United States imported one out of every two gallons of gasoline. Between 15-20% of that oil came from the Persian Gulf and projections over the next fifteen years don't show a significant increase. Additionally, over 80% of our European allies' oil comes from the Gulf and the overall trend is that the world will be more dependent on Gulf oil in the early 21st century than today. In a global marketplace an oil crisis in the Gulf will hurt the European and Asian markets and by extension impact the U.S. economy. The energy crisis of 1973, which resulted in a prolonged slump in the U.S. economy, is an example. In particular, Saudi Arabia is the world's largest producer of oil and the source of all the world's current surge oil production capacity; instability in Saudi Arabia could risk over 50% of the world's oil output.

Free passage through the Strait of Hormuz is also a U.S. priority. Any attempt to close the Strait to tanker traffic would directly impact the availability of oil on world markets.[2] Gulf oil

exports could be rapidly brought back to two-thirds their current level without the use of the Strait. However, also the Strait's role in other types of commercial shipping is just as important – including the access to ports essential to surging military men and material into the region in times of crisis.

President George W. Bush's administration has not yet established a new national security strategy for the Gulf. However, it is highly unlikely that there will be any change in the designation of Gulf regional stability as a vital national interest. Other countries would like to assume the leadership role in the Gulf and will take over if the U.S. abdicates. They may not consider U.S. vital interests important to them. Therefore, the present policy of engagement to set conditions for Gulf prosperity and stability will probably be continued – largely intact.

WORLDWIDE WEAPON TRANSFERS

World trade has expanded vastly since the end of the Cold War while arms transfers have decreased. Figure 1 shows the trends of the world arms transfers and the U.S. share of those transfers from 1990 to 1999. The arms market may have a major niche in technology and some effect in reducing unit costs to the exporting nation, but is of little macroeconomic importance in gross terms. Although the U.S. greatly increased its global market share in arms exports, they are scarcely a key aspect of U.S. trade.[3] The percentage of arms exports to total exports has been less than 5% for the last five years. However, by the measure of arms transfer agreements or arms delivers the U.S. was the world's largest arms exporter in the 1990s and had 38.9% of the world's arms transfer agreements in 1999.[4]

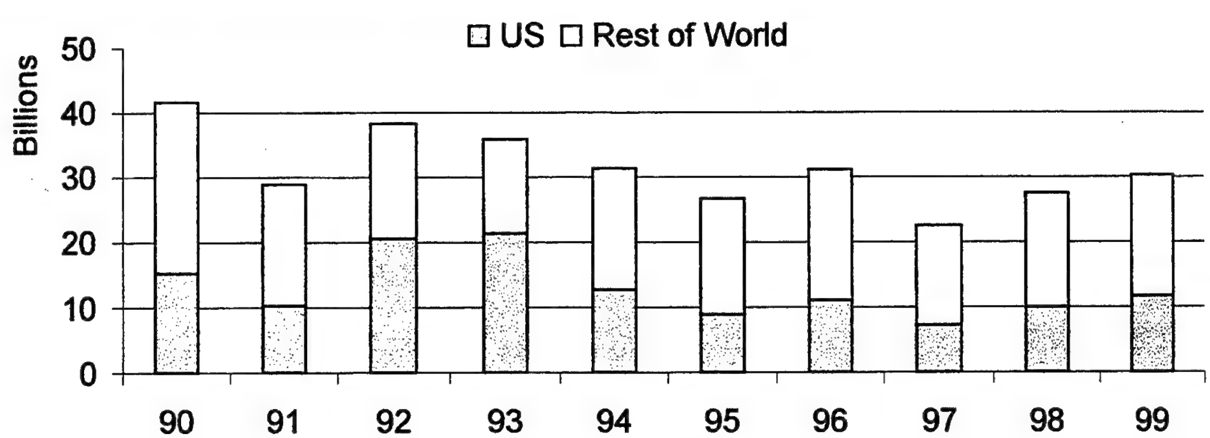

FIGURE 1. U.S. ARMS TRANSFER SHARE[5]

The collapse of the Soviet Union, China's failure to develop weapons with advanced military technology, sanctions on Iraq and Iran's financial problems have all combined to sharply

cut the flow of arms from Russia and China. The decline in Russian and Chinese sales helped raise the share of U.S. sales as a percentage of the total sales to the world market and to the Gulf.

The collapse has left the Russian arms industry with a vast over-capacity and the poor state of the Russian economy has left their defense industry desperate to sell. The Chinese defense industry can't compete with the high technology Western-made arms and have lost much of their past market in conventional arms. The unfortunate side effect is the willingness of Russian and Chinese firms to sell the technology and equipment needed for long-range missiles and weapons of mass destruction to the Gulf.[6]

ARMS TRANSFERS TO THE PERSIAN GULF

The Gulf States spent over $208 billion dollars on military expenditures in the 1990s and is the developing world's largest buyers of arms. In 1999 the Southern Gulf States spent 8.7% ($28.8 billion dollars) of their Gross Domestic Product (GDP) on military expenditures while Iran and Iraq combined spent 1.7% ($7.1 billion dollars). They spent nearly twice as much of their GDP on military expenditures as other regions, and the percentage of total imports as arms imports was four times than other developing regions. Deliveries to the Gulf increased by 14% from $43.5 billion during 1992-1995 to $48.0 billion during 1995-1999. This represents the final weapons deliveries that were ordered prior to and immediately after the Gulf War. However, and most importantly, the trend of arms transfer agreements (new orders) is downward during this period. Arms transfer agreements to the Gulf decreased by 49% from $39.6 billion during 1992-1995 to $19.5 billion during 1995-1999 and Iraqi arms imports ceased in 1990[7]. The only nations with an increase in arms orders were Bahrain, Qatar and the U.A.E.

During 1992-1999 the Gulf was the largest developing region arms importer. Figure 2 shows the total arms transfers to the Gulf States during the 1987-1990, 1990-1993 and 1994-1997 timeframes. Saudi Arabia was number one in arms transfer agreements, the U.A.E. was third, and Kuwait was seventh. Military spending in Saudi Arabia is a major part of government expenditures; in fact arms imports are driving expenditures. Kuwait and U.A.E are also making large arms purchases. The negative side of arms imports is their serious impact on the balance of trade. They significantly reduce the value of the overall exports – even in oil exporting states.[8] However, the total arms imports for the Gulf are decreasing rather than increasing as many expected after the Gulf War.

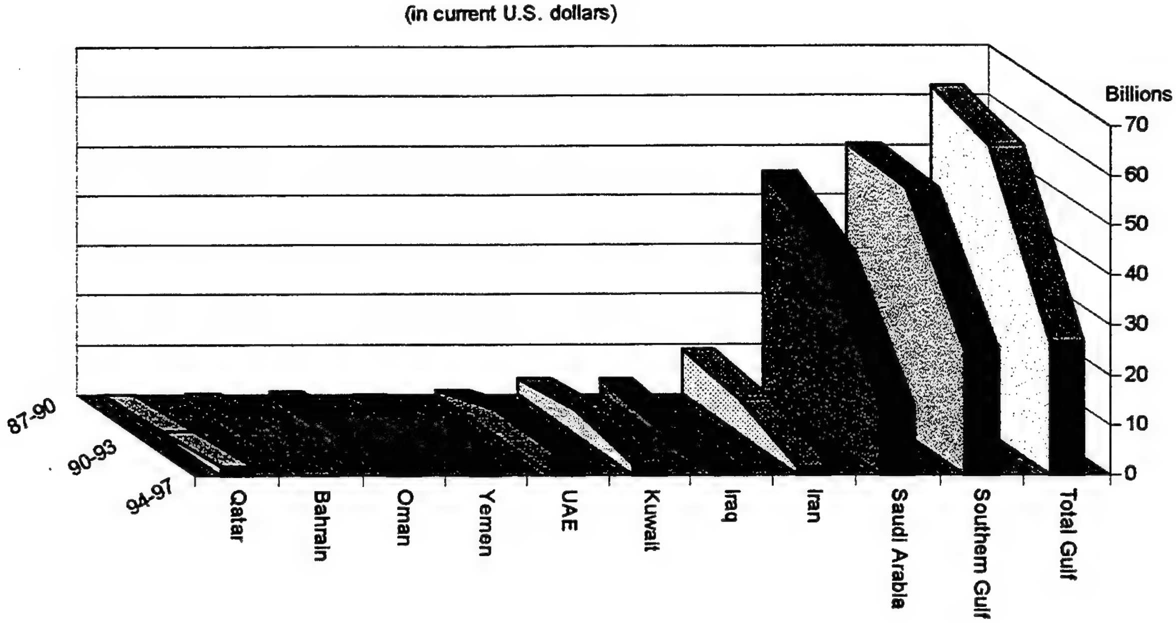

FIGURE 2. TOTAL GULF ARMS TRANSFER AGREEMENTS 1987-1997[9]

The majority (approximately 90%) of arms transfers and subsequent deliveries are made through the Foreign Military Sales (FMS) process. Another way to obtain U.S. arms is through direct commercial sales, which total approximately 10% of U.S. arms sales. There are programs to dispose of or sell excess military material at a reduced cost as well as programs to provide funding from the United States Government (USG) to buy U.S. arms or to guarantee loans for arms purchases.

The Southern Gulf States are the key customers for U.S. arms sales. The U.S. has had the lion's share of new agreements in the Gulf relative to any other major arms exporting country since the end of the Cold War. Figure 3 shows the U.S. arms transfers to the Gulf States from 1987 to 1997. The U.S. had 47.5% of the total arms export market to the Gulf during the period from1992-1995 and 36.4% of the market during 1996-1999. U.S. arms transfer agreements to the Gulf decreased 38% from 1992-1995 to 1995-1999.[10] This downward trend follows the Gulf total arms import downward trend. Gulf arms transfers rise and fall in proportion to real and perceived threats as well as the health of the economy of buying nation. Therefore there is no reason to assume that the decline in arms transfers since the Gulf War will continue into the future.

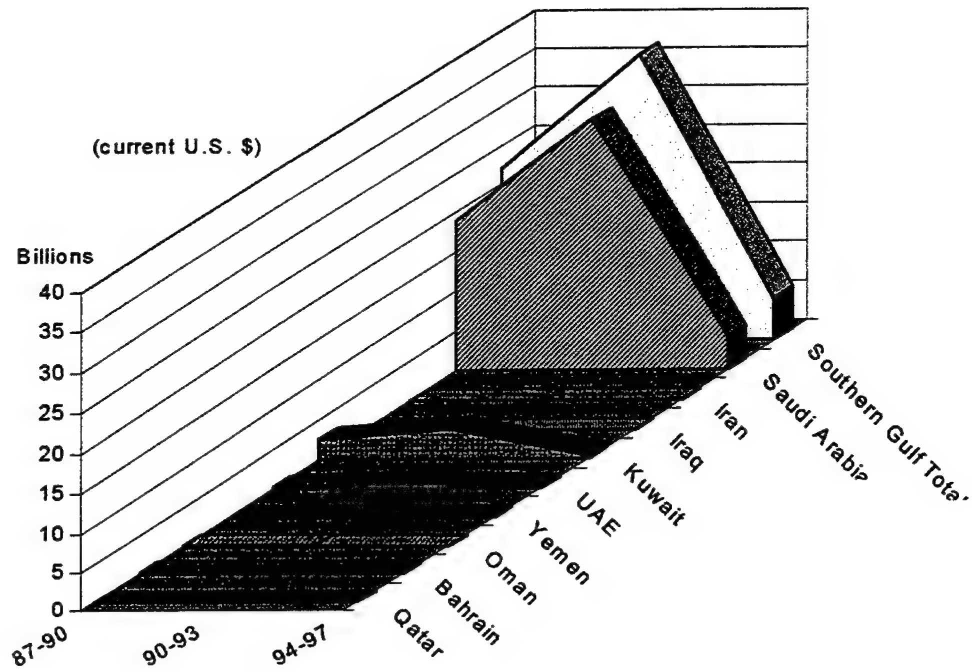

FIGURE 3. U.S. ARMS TRANSFERS TO THE GULF 1987-1997[11]

U.S. ARMS CONTROL LAWS AND REGULATIONS

Three principal laws and two sets of implementing regulations govern U.S. arms transfers.[12] Two of the laws were written over twenty-five years ago, and one though lapsed continues to be enforced. The reality is they are updated on an almost annual basis. A new Export Administration Act (due to lapse in August 2001) covering dual use technologies is being considered by Congress to ease arms transfers to U.S. friends and allies.[13]

The Arms Export Control Act (AECA) of 1976 is the primary law establishing procedures on sales and transfers of military equipment and related services. This law defines self-defense, internal security, and UN operations as the purposes for which weapons may be transferred and establishes a process by which the Executive Branch must give Congress advance notice of major sales. The AECA also requires a series of quarterly and annual reports from the Department of Defense and the State Department to Congress on overseas sales.

The Foreign Assistance Act (FAA) of 1961 is the law that governs providing economic and military assistance to foreign governments. It establishes that the Executive Branch and Congress may give funds (grant or loan) to foreign governments to purchase newly manufactured U.S. arms. The FAA provides the authority to give away, or sell at reduced cost,

surplus arms but bars arms transfers and aid to specific countries for their pursuit of WMD. The FAA includes language barring military aid or arms transfers to any country that shows a "gross and consistent" pattern of human rights abuse.

The Export Administration Act (EAA) of 1979 is the law that governs shipments of dual-use goods-technology and information with both military and civilian applications. The EAA lapsed in 1994, but it continues to be valid under repeated uses of the International Economic Emergency Powers Act by the President. It is not certain that the proposed update to the law will pass in 2001 (an earlier version failed in the Senate in 2000). However, it is highly likely that President Bush will choose to continue it under his emergency powers.

U.S. CONVENTIONAL ARMS TRANSFER POLICY

United States arms transfer policy is governed by the February 1995 Presidential Decision Directive 34 (PDD34). Decisions to approve a sale are made on a case-by-case basis but the policy is liberal enough to allow sales to be used to promote the national interest. Though similar to former policies, this policy affords a high priority to U.S. economic considerations, which resulted in increased governmental support for conventional arms transfers outside the U.S. Once a decision is made to approve a transfer, the U.S. Government provides the following support to the defense industry:[14]

- Task overseas mission personnel to support marketing efforts of American companies bidding on defense contracts.
- Support official Department of Defense participation in international air and trade exhibitions.
- Actively involve senior U.S. Government officials in promoting sales of particular importance to the U.S.
- Seek legislation to repeal the statutory requirement to recoup nonrecurring costs on government to government sales, and align retransfer restrictions applied to government to government sales with those now applicable to commercial sales.

The working premise of U.S. weapons transfer policy is to arm friends while denying advanced military technology to potential adversaries. The key goals of the U.S. Conventional Arms Transfer policy during the Clinton Administration were:[15]

- Ensure U.S. military forces continue to enjoy technological advantages over potential adversaries.
- Promote regional stability in areas critical to U.S. interests, while preventing the proliferation of weapons of mass destruction and their missile delivery systems.

- Promote peaceful conflict resolution and arms control, human rights, democratization, and other U.S. foreign policy objectives.
- Help friends and allies deter or defend themselves against aggression, while promoting interoperability with U.S. forces when combined operations are required.
- Enhance ability of U.S. defense industrial base to meet U.S. defense requirements and maintain long-term military technological superiority at lower costs.

The United States recognizes its responsibility to ensure that transfers are only to meet legitimate defense needs of responsible states. A careful assessment of the purchaser's security needs, the dynamics of the regional power balance, and the potential to destabilize the region is made prior to approvals. All arms transfers take into account the following PDD 34 general arms transfer decision criteria[16]:

- Consistency with international agreements and arms control initiatives.
- Appropriateness of the transfer in responding to legitimate U.S. and recipient security needs.
- Consistency with U.S. regional stability interests, especially when considering transfers involving power projection capability or introduction of a system that may foster increased tension or contributes to an arms race.
- Degree to which the transfer supports U.S. strategic and foreign policy interests through increased access and influence, allied burdensharing, and interoperability.
- Impact of the proposed transfer on U.S. capabilities and technological advantage, particularly in protecting sensitive software and hardware design, development, manufacturing, and integration knowledge.
- Impact on U.S. industry and the defense industrial base whether the sale is approved or not.
- Degree of protection afforded sensitive technology and potential for unauthorized third-party transfer, as well as in-country diversion to unauthorized uses.
- Risk of revealing system vulnerabilities and adversely impacting U.S. operational capabilities in the event of compromise.
- Risk of adverse economic, political or social impact within the recipient nation and the degree to which security needs can be addressed by other means.
- Human rights, terrorism and proliferation record of the recipient and the potential for misuse of the export in question.
- Availability of comparable systems from foreign suppliers.

- Ability of the recipient effectively to field, support, and appropriately employ the requested system in accordance with its intended end-use.

The United States encourages other arms exporting countries to take similar precautions, and in particular to refrain from transfers to states with a clear record of irresponsible and aggressive behavior, such as Iraq and Iran.[17] The U.S. sponsored Arms Control and Regional Stability (ACRS) talks as part of the multilateral talks accompanying the Arab-Israeli peace process, but they stalled 1994. Additionally, the five permanent members of the United Nations Security Council, the United States, Russia, the United Kingdom, France and China started the Big Five talks on arms trade restraints after the end of the Gulf War. However, since approximately 80% of the world arms exports are from these five countries, the talks did not go very far. The Big Five talks were succeeded by the United Nations Wassenaar arrangement, which tries to establish common destabilizing definitions for arms sales. The Wassenaar arrangement is totally voluntary but has increased the transparency of worldwide arms transfers. Under the Wassenaar arrangement, the United States, Russia, and major European arms suppliers collectively discuss arms transfers to problem states and the U.S. provides arms transfer information to the United Nations Register of Conventional Arms. The U.S. increased its internal transparency of arms transfers during the 1990s and provides Foreign Military Sales and direct commercial sales information to Congress annually.

The sheer volume of U.S. licensing cases makes it difficult for the U.S. to do a thorough job in reviewing arms transfers. The State Department reviews approximately 45,000 cases every year, of which about 12,000 are referred to the Department of Defense for input. In fiscal year 1999, a case review averaged 24 days for State Department review and 100 days if other federal agencies were involved. Both the State Department and the Department of Defense promised to increase staffing by 50% with a goal of reducing turn-around time for arms transfer cases to NATO members to 10 days.[18] An additional benefit will be to reduce the possibility of rubber-stamping arms transfers, instead conducting an analysis of the benefit of the proposed transfer to the national interest.

OPPOSITION TO POLICY

Activists assert that in the seven years since the Persian Gulf War (and the Cold War) ended, the U.S. and other major arms exporting governments decided that no fundamental re-evaluation of the role of military force in international relations was advisable. Instead of placing greater emphasis on the role of law and non-military diplomacy, during the past decade the U.S. and other key military powers have increased their reliance on military force through United

Nations operations and/or regional alliances. Activists point out that multilateral military operations and the need for interoperable fighting forces now provide some of the principal justifications for arms exports and military training by the U.S. The bottom-line is that while the activists' assertions are based on facts they fail to analyze the balance of power and the geopolitical situation required for regional stability.

DEFENSE INDUSTRY

> *If you think America still has a vast military-industrial complex consuming much of the (U.S.) economy, think again. The entire defense industry now claims less than 1% of the gross national product. When all the numbers for 1999 are in, the combined military sales of the nation's top 10 defense contractors will total less than half of Wal-Mart's (retail) revenues.*
>
> — Loren B. Thompson, Lexington Institute

The defense industry is not the overwhelming monster portrayed by activists. The world's largest defense company is now BAE Industries, which is a British company. The defense industry is not even a large segment of U.S. industry, however, it is critical to national defense. The U.S. requires a robust and competitive defense industry (making a profit) to insure high quality, affordable weapon systems. The Department of Defense's ability to execute the national security strategy is based on the continued ability to access a defense industrial base that can:[19]

- Design and produce next generation weapons.
- Innovate to preserve technological leadership.
- Reduce cycle times to respond to evolving threats.
- Lower costs.
- Support interoperability for joint and combined operations with coalition partners.

The overwhelming superiority of U.S. weapons in the Gulf War and the end of the Cold War led the USG to take a procurement holiday in the 1990s. The modernization portion of the Department of Defense budget (Research, Development, Test and Engineering plus Procurement) declined 66 percent between 1985 and 2000.[20] Developed or first tier governments everywhere are buying fewer weapons from the defense industry than previously. This has created an excess arms industry capacity. The reduction in the business base drove the 1990s' wave of defense firm mergers around the world with the result being a smaller more concentrated defense industry – eager to do business. Foreign arms sales let the U.S. defense

industry retain its excess production capacity longer and retain a larger world market share.[21] One example is the U.S. company United Defense where 40% of its business is now foreign sales either through FMS or direct commercial sales.

Defense industry used to be run largely by managers who grew up in engineering focused on long-term profits. The focus has changed in the last five years with managers coming from finance whose focus is on the short-term return on investment. The consolidations, without the divestments that should have taken place during the mergers, created large debt to equity ratios for companies like Lockheed Martin. The combination of a declining revenue base and increased debt burdens has minimized profit margins for defense firms. During the period from 1994-1996 profit margins were 10-12%, which was up sharply from the historical 7-9% margins.[22] Boeing, Raytheon, and Lockheed Martin have now returned to the historic norms. This financial performance looks worse in the stock market where the profit margins compared to the profits in the Standard and Poor's (S&P) 500. From 1983 to 1999, the defense industry's aggregate value increased 400% while that of S&P 500 increased over 800%.[23] Therefore, any sale, whether domestic or foreign, helps the defense company portfolio. However, the U.S. defense industry is not failing and is starting to make divestment decisions that will promote its recovery from the contraction pains of consolidation.

The Department of Defense (DoD) and the defense industry prime contractors are maximizing buys of "off-the-shelf" commercial components whenever possible. This allows them to take advantage of the tremendous cost savings afforded by suppliers with a larger customer base and more competition and also reduces the risk to DoD caused by the shrinkage of vendors in the defense industry. The side effect is the blurring of the lines between the traditional commercial and defense industries.

National borders are almost irrelevant to how businesses are organized and staffed. The U.S. and its close friends and allies rely increasingly on commercially and globally available technologies to develop or enhance military capabilities. Globalization in the defense industry resulted in multinational corporations with a production presence in multiple countries. Combined with negotiated offsets, U.S. weapons are no longer produced solely in the U.S. A multitude of parts are now made abroad.

The consolidation of the defense industry, intense competition, the defense industry's need to increase profits, their over capacity, and globalization all combine to make arms sales a buyer's market. Having the largest arms sales volume make the Gulf States a very important market for the U.S. defense industry. However, the U.S. defense industry does not have a lock on the Gulf marketplace the arms transfer percentages suggest. Individual countries often buy

from U.S. allies as well as others. The European Union (EU), particularly France, is more than willing to sell their arms to the Gulf. Even where the strategic interests of U.S. Western allies are complementary, the pursuit of their own economic interests has provided Gulf States with more room for bargaining on arms sales. It is a virtual certainty that U.S. curtailment of arms transfers to the Gulf will result in Gulf States simply going to another country to buy. For example, during 1996-1999 Saudi Arabia took delivery of more arms from Western European countries than from the U.S. and the U.A.E. made less than 4% of its arms transfer agreements with the U.S. during this same period.

The present climate also allows arms importing nations to force industry to exaggerate offset requirements. Offsets take the form of demands for the weapons' technology and/or licenses to buyer nations to produce piece parts for the systems or in some cases the entire weapon system. Examples are M1 tanks being produced in Turkey and Egypt and all Multiple Rocket Launcher System wiring harnesses being produced in Turkey. Producing a large portion of the parts aboard substantially reduces the positive impact of the sales for the U.S. economy since it exports jobs abroad. It may not impact the large defense prime contractors who are integrators but it directly impacts the thousands of lower tier firms who produce the nuts, bolts, parts, components, and subassemblies for the primes.

In the defense industry, survival means survival of the most opportunistic. Neither defense industry profits and survival nor U.S. national interests are altruistic when it comes to arms sales. The push by the defense industry to sell has facilitated the USG approving top-of-the-line systems, previously not for sale like F-15 bombers and supersonic anti-ship missiles, now being sold to "developing" countries. These are high-ticket value items that put significant profits in defense industry pockets. The downside is that the overall technical threat and lethality of the arms being exported has never been higher.

The Department of Defense is playing an active role with the State Department, supporting export control reform by speeding up the process of processing munitions export requests to benefit U.S. trading partners while maintaining the export controls necessary to safeguard national security. The arms transfers to "developing" states like the Gulf have not produced a business bonanza. They don't even make a large impact on the U.S. economy, but they are important to the bottom-line profits of the defense industry. It is an industry, both in the U.S. and in other nations, that is hungry for sales. The "developing" nations have demonstrated, particularly in the Gulf, they can and will go to non-U.S. defense contractors for their arms. Any serious attempt by the USG to drastically reduce arms transfers to the Gulf is unlikely to achieve the desired effect. Only arms transfer controls agreed to and enforced by all

the "developed" nations will significantly reduce arms transfers to "developing" nations.

GULF STATES MILITARY BALANCE OF POWER

The military balance in the Gulf is not a level playing field and requires a referee for all the states to remain in the game – the U.S. has taken on that role of referee. Iran and Iraq are proven or potential aggressors, who are not friendly to the United States national interest. It is arms transfers to these two countries that worry the U.S. Presently there are no U.S. arms transfers to Iran or Iraq but they do acquire arms from Russia, China, Europe, and North Korea.[25] The Gulf Cooperation Council (GCC) with the countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates offers some hope of countering the threat posed by Iraq or Iran – but it is not a very creditable counterbalance at this point in time. Populations in Iran and Iraq are significantly greater and can support much larger mobilizations than the Southern Gulf States. Iran alone has almost twice the population the entire Southern Gulf States have. Figure 4 compares the populations of the Gulf States.

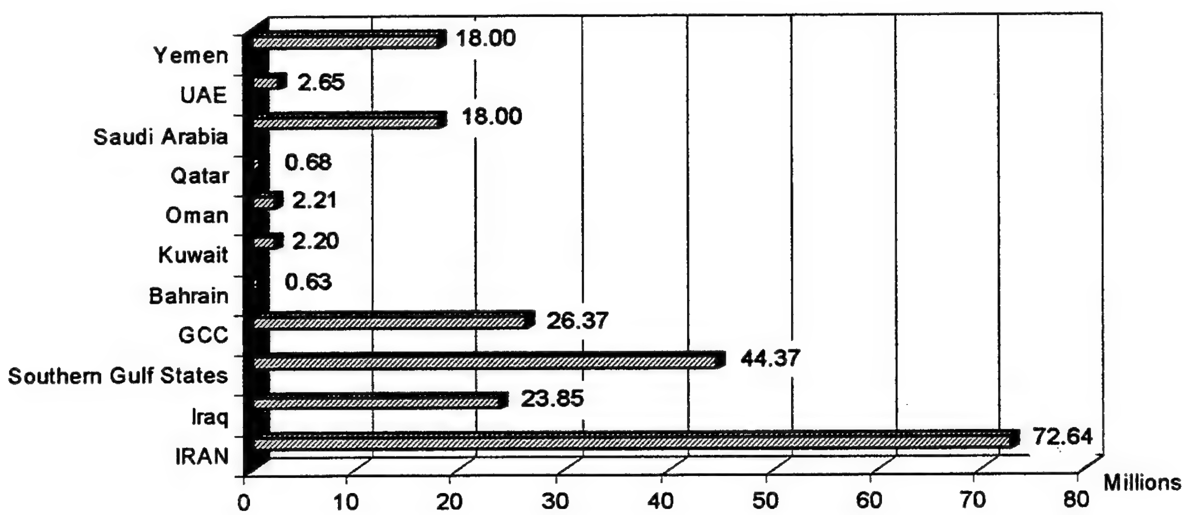

FIGURE 4. PERSIAN GULF POPULATION[24]

Despite the loss of 40-60% of its operational inventory of major weapons during the Gulf War, Iraq remains the most effective military power in the Gulf with an active duty military of 387,500. Iraq's ground force is larger than and qualitatively superior to the entire combined GCC or Iran. Figure 5 compares the active duty military strengths of the Gulf States.

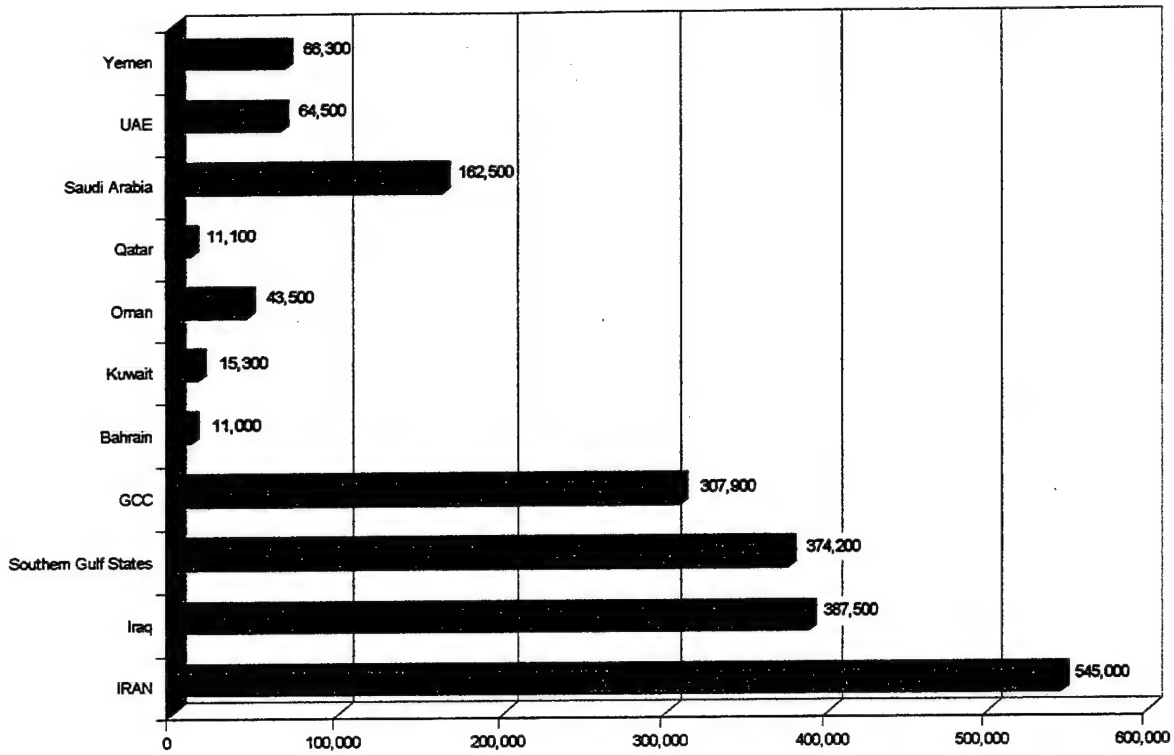

FIGURE 5. PERSIAN GULF ACTIVE DUTY MILITARY[26]

Iraq retains sufficient ground forces near Basra to break out and overrun Kuwait quickly – unless there is adequate warning to reinforce the standing forces there. Iraq continues to act aggressively against its neighbors resulting in several U.S. military interventions. On the positive side, Iraq has not been able to produce, fund and/or import any major new conventional warfare technology to address lessons learned during the Gulf War.[27]

Iran has largely recovered from the conclusion of the Iran-Iraq War in 1989 and now has a comparatively large force with an active duty military of 545,000. Iran has a substantial inventory of missiles that can reach the Southern Gulf States, including 400 tactical ballistic missiles. They are developing a domestic production of missiles, including missiles with the 1000-km range needed to reach Israel. However, Iran has not offset its weapon obsolesce and the wear on its overall inventory of armor, ships, and aircraft. In the Southern Gulf States, Kuwait and Saudi Arabia see Iraq as a threat while the remainder sees Iran as a threat. However, the GCC has not significantly built up its ground forces since the Gulf War. The GCC total active military is 307,900 and only Saudi Arabia in the GCC has built a significant air force.[28]

The task of providing for Southern Gulf States security is complicated by factors other than Iraq or Iran. As the premier arbiter of Middle Eastern security, there is a much greater demand for U.S. involvement in local conflicts. Significant rivalries among the GCC states complicate matters. Rivalries include Bahrain versus Qatar, UAE versus Oman, Saudi Arabia versus Yemen, Kuwaiti concerns over Saudi border issues, and Qatar and Oman fear Saudi Arabian dominance. The individual nations have closer defense cooperation with the U.S. than with each other. The end of the Cold War, with the associated disappearance of the potential for a global confrontation with the Soviets, makes the U.S. more susceptible to involvement in local disputes.

The U.S. actively supports the security of the GCC and has undertaken a variety of steps to enhance their ability to defend themselves, and tries to limit the militaries of Iran and Iraq. The U.S. walks a tight rope in providing this support to the Gulf region – how much is too much. Too many troops on the ground is seen as a threat to unfriendly countries and results in pressure to U.S. friends and allies to ask for U.S. withdrawal. The U.S. prepositioned combat equipment in the region, is actively engaged in both training and exercises with Southern Gulf States' militaries, projects a massive combat power with the carrier task force permanently assigned to the region, but limits its combat ground present to a battalion in Kuwait.

As part of a three-tier approach, the Department of Defense is helping its Gulf partners strike the proper balance as they modernize their military establishments. The U.S. is encouraging them to take responsibility for their own defense but avoid over-committing themselves financially or buying forces they cannot maintain and operate. In particular, Saudi Arabia and Kuwait had to devote a sizable share of their national resources to pay for new defense upgrades after the Gulf war. Added to the financial burdens associated with paying for the Gulf War, these expenditures have resulted in serious near-term cash flow problems. To help them get the best return on their investment, U.S. military personnel work closely with their counterparts from Saudi Arabia and Kuwait to conduct exhaustive defense requirements reviews. These reviews analyze the country's defense needs, their financial resources, and their manpower resources.[29]

A further complication in U.S. ability to cope with challenges in the Middle East is that Western allies, as well as U.S. regional partners, have interests that do not necessarily parallel ours. Even where strategic interests are complementary, the pursuit of conflicting economic interests strain cooperation with allies and other friendly countries.

Current weapons deliveries are making only token progress in correcting the qualitative defects in GCC forces and no meaningful progress is being made toward integrating the

countries under the GCC. The current arms orders and inventories preclude standardization for the next decade. While the activists are correct that U.S. policy remained essentially unchanged during the 1990s, they ignore the significant differences in military capability that exist between the Southern Gulf States and Iraq and Iran. Figure 6 compares Gulf States military expenditures to their Gross Domestic Products.

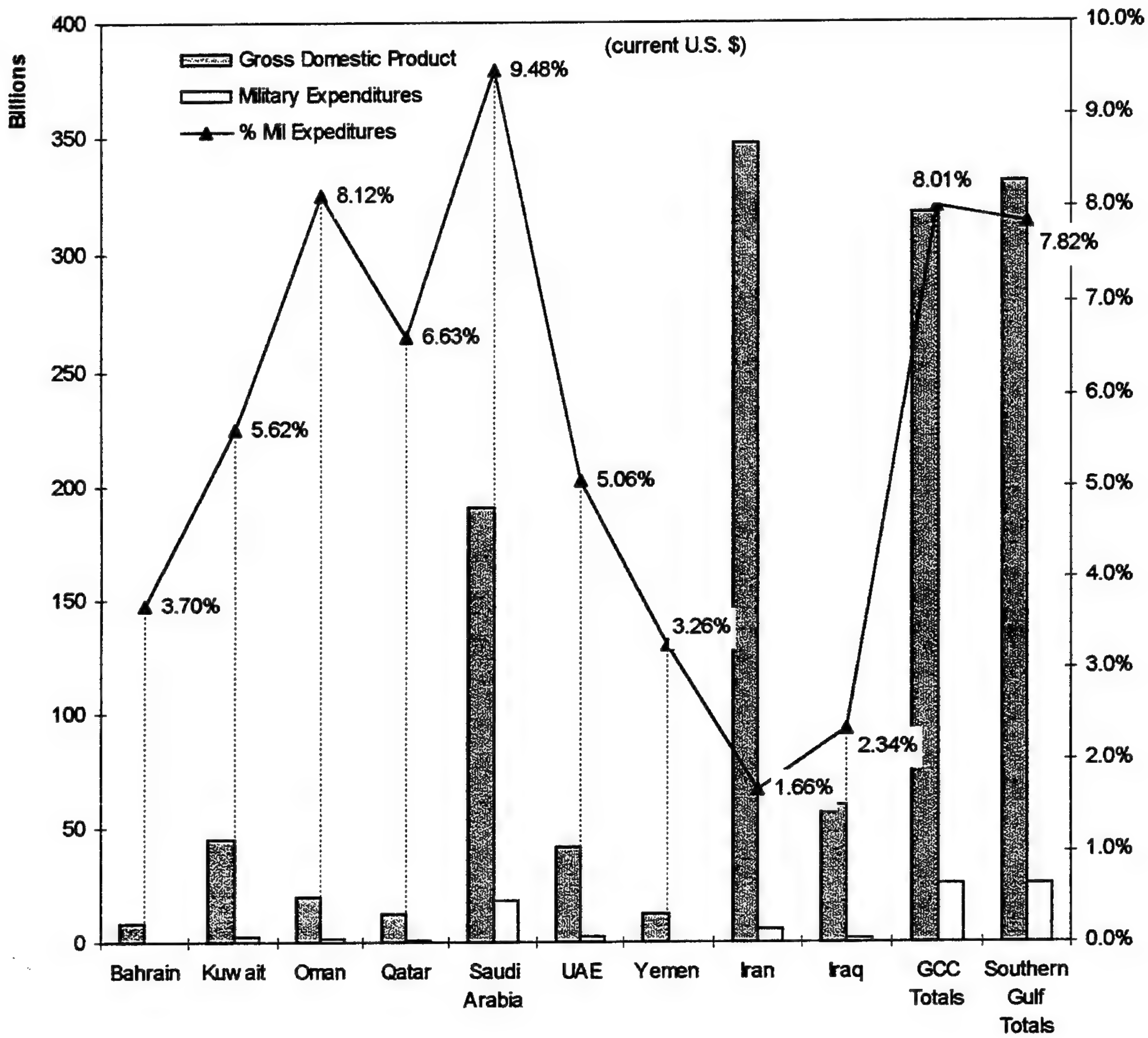

FIGURE 6. 1999 GULF STATES GDP VERSUS MILITARY EXPENDITURES[30]

The U.S. preference is for countries to take primary responsibility for their own defense and the Southern Gulf States are no exception. It is apparent that the ability of the Southern Gulf States to provide a credible deterrent to aggressors is limited by demographic and other constraints. The bottom-line is that neither the Southern Gulf States nor the U.S. can provide for the security of the region without each other's cooperation.[31]

ECONOMY

Oil and natural gas provides the principal sources of income for the Gulf States. The economies of all the Gulf States are directly impacted by the rise and fall of the price of a barrel of oil. In fact there is an acute over-dependence on oil and natural gas exports. Oil exporting states will be hard pressed to maintain their current Gross Domestic Product (GDP) unless they diversify and reduce foreign labor. Growing dependence on imports of manufactured goods and food from outside the Gulf indicate trade does not support development.[32] Growth in Gulf exports was the lowest in the world during 1984 –1993 but is rising in the late 1990s due to a rise in oil prices.

World Bank projections indicate that regional growth improved in the 1990s but lags significantly in global terms. The gap between Gulf growth and other "developing" regions has been growing for the past twenty years. The U.S. and the World Bank project improvements in the future but estimates differ sharply.[33]

The fear of political instability in the Gulf makes it difficult to attract foreign investment. This exacerbates economic decline. Foreign investments collapsed in the 1980s and the early 1990s and growth in investments has been flat since 1995. The poor outlook for foreign investment is due to the collapse of oil prices, war, and "statism". Foreign investments are lagging badly behind other "developing" regions like East Asia.

Private capital flows to the region are also poor. Additionally, productivity improved in the 1990s but lags far behind other regions like South Asia.[34] Gulf oil exporters with growing economic problems include Bahrain, Iran, Iraq, Oman, Saudi Arabia, and Yemen. The U.A.E., Kuwait, and Qatar are now the only wealthy oil states. The condition of the Gulf States economies lends credibility to activists' claims that arms transfers hurt not help the importing countries, taking basics from the majority of the population. The health of the economy also heavily impacts the Gulf States' ability to import arms. High oil prices generally mean an increase in military spending. The Gulf is not immune to the global forces of democratization where economics are the primary driver. The Gulf has its own version of economic and political liberalization (though manipulated and controlled). The integrated global market may make democratization a requirement for national survival. The replacement of the present leaders of the Gulf States with new leaders will change Gulf dynamics. If the recent Bahrain change in leadership is any indication the new leadership will work to encourage a closer integration into the global marketplace. This generally will mean closer ties to the West as well.[35]

CONCLUSIONS AND RECOMMENDATONS

The conundrum for the United States is that Persian Gulf stability is a vital national interest, yet large amounts of arms are flowing into the region each year. The U.S. is the largest arms exporter in the world and will be for the foreseeable future. The Persian Gulf is the world's largest regional arms importer and the U.S. is the largest exporter to that region. This is not necessarily just more money for the defense industry and a decrease in regional stability. The answer to Southern Gulf arms transfers is not to drastically reduce arms transfers to U.S. friends and allies. Closing the existing military imbalance between the Southern Gulf States and Iraq and Iran will enhance future security and stability in the Persian Gulf region. Iraq and Iran dominate the Gulf and only U.S. support to Southern Gulf States counter their military superiority. This imbalance can be addressed in future arms sales if they have the objective of providing "missing" capability and enhance the interoperability of the buying nation's military as well as enhance their ability to work with regional allies and the U.S. The high technology glitz factor needs to be avoided at all costs. Buying weapons that aren't logistically supported and don't have the trained personnel doesn't add materially to a nation's military capability. New high technology weapons purchases must be approached as total package procurements. The infrastructure must be built and the pilots trained in new tactics, techniques, and procedures to make the planes effective.

It is unlikely that President George W. Bush's administration will make major changes to arms transfer policies for the Gulf. The new administration appears to be pro-defense industry and the Clinton policies already supported arms transfers. Any decrease in sales will probably just mean a shift in sales to our Western allies. It is a buyers' market and the Gulf States have demonstrated they will go to someone else if U.S. arms aren't available. The present arms market will insure that non-U.S. companies fill that role if the United States Government blindly takes that approach.

The present policy allows maximum shaping and engagement opportunities in the Gulf for the United States. The U.S. should continue the present policy to approve each arms transfer on a case-by-case basis and only approve those that support the U.S. vital interest of regional stability. Past arms transfers made small progress in correcting the qualitative defects in GCC forces and no meaningful progress in integrating the countries under the GCC. However, the U.S. must prepare with its Southern Gulf friends and allies to operate in a military coalition mode in case of an emergency. The present general arms transfer criteria are appropriate and can achieve a modern integrated force for Southern Gulf States, if applied rigorously to the arms transfer licensing process. Modifications to the approval process or arms transfer criteria should

be made only after the new administration establishes its National Security Strategy. The personnel increases in the State Department and Department of Defense to support the arms transfer licensing will help make this possible. It also has the added benefit of reducing processing time, which will aid the defense industry in being more competitive.

There is a lack of Western cohesion in terms of an integrated policy towards arms transfers in the Persian Gulf. The U.S., as a permanent member of the United Nations Security Council, should resume the Big Five talks to develop a multilateral arms transfer and control regime similar to those of the Nuclear Suppliers' Group, the Missile Technology Control Regime, or techniques similar to those in the Conventional Forces in Europe (CFE) agreement – limits on the numbers of major military items, establishing limits on armament in zones near borders, prior notification about military exercises, and observation of large exercises in the Gulf. [36] This is the only hope of it not simply being a case of the U.S. being the only one to embargo the arms transfers while others ignore it. Unfortunately the present climate will probably preclude establishment of such a regime, but the U.S. should take the initiative in trying to establish one. The U.S. support for arms transfer information to the United Nations Register of Conventional Arms under the Wassenaar arrangement should also continue.

A wide variety of initiatives to increase arms transfer transparency, to insure arms transfers support national interests, to obtain United Nations Security Council nations support for international conventional arms transfer control regimes, and quantitatively reduce arms transfers will provide more politically acceptable answers. There are no silver bullets in conventional arms control policy.

WORD COUNT = 6733

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